

TRANSFORMING THE WAY WE DO BUSINESS

Lieutenant Governor Ramsey, Speaker Harwell, Speaker Pro Tem Jamie Woodson, Speaker Pro Tem Judd Matheny, Members of the 107th General Assembly, Justices, Constitutional Officers, friends, guests, fellow Tennesseans and my wonderful wife Crissy:

I stand here tonight to report on the state of our state and to deliver a budget that meets the requirements of our Constitution.

Even though we have seen several consecutive months of revenue growth, our job to responsibly and financially position state government for the future is not complete.

Tough choices lie ahead and we have addressed them in this budget. But I am convinced that if we have the courage to take the necessary steps now, then in future years we are positioned for success and we will compete with and against the best.

But I want to be very clear – we have a lot of work to do.

As I begin, I want to emphasize two points – first, relative to many other states, we are in a strong position. We have a low tax rate and a very low level of debt. However, my second point is that we really are going to have over a billion dollars less in revenue to work with this year that we did last year.

That reality will frame this budget.

I also want to emphasize that our current financial constraints are not a temporary condition. I think that what we are seeing in government today really is the “new normal.” Every government, ours included, will be forced to transform how it sets priorities and makes choices.

Ten years from now we will not - and cannot - be governing the same way we did 20 years ago.

The time is right to go on a rigorous diet that consumes less and exerts more energy.

No one in this chamber tonight was elected to cling to the status quo. The people of Tennessee told us to roll up our sleeves, find consensus on a responsible and realistic spending plan, educate our children, encourage great teachers, create more jobs and – do it now.

The way toward a brighter future for all Tennesseans starts tonight. Through our actions, we will show the people of Tennessee and the rest of the country that we are up to the job and will get it done.

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One thing that the rest of the country and the whole world already know us for is our well-deserved reputation for being the Volunteer State.

Today, many of our Tennessee volunteers are going to faraway lands, away from family and friends, protecting the freedoms that we hold dear.

The men and women of Tennessee, who serve in the military, are on the front line in the war against terror.

Among the membership in our General Assembly is Lieutenant Colonel John Mark Windle, back from his second mission in the Middle East and at work representing the people of the 41st State House District.

Welcome home, Colonel.

And let me ask all members of the General Assembly that have served in the armed forces also to stand and be recognized.

Since September 11, 2001, more than 20,000 men and women in the Tennessee National Guard – Army and Air Force – have been called to serve. Many of them are state employees and all are neighbors in the communities that dot our state. Before this year is over, for example, 59 employees of the Department of Safety and Homeland Security will go on active duty. Mobilization orders or notification of planned deployment will touch another 1,804 men and women.

While many have served, some gave their last, full measure.

Since 2001, 136 Tennesseans – men and women – have lost their lives.

Please join me in a moment of silence in recognition of those who are called to serve and in honor of those who gave their lives to protect and preserve our freedoms.

Thank you.

The reality is that less than one percent of our country serves in our voluntary armed forces in order to keep the rest of us free and secure. For that, we should all be grateful.

Tonight, I want to focus on three key questions:

- Where we are?
- Where we plan to be?
- How we will get there?

I want to emphasize again that we cannot and will not continue to just do government the same way. We will no longer have more of the same kind of government in good times and a less of it hard times. We really do have to transform our government.

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That means a quality education for all students. We may be racing to the top, leaving no child behind, but what we really are doing is opening doors to tomorrow for young people who are ready to step up. And there is plenty of room for caring parents and quality teachers along the way.

That means creating jobs that offer good wages and support for families.

That means state government focused on a few things done well.

And that means each of us accepts personal responsibility for a healthier lifestyle.

So, where are we?

On a road to recovery – but it is a slow one – with difficult choices yet ahead.

Federal stimulus funds are vanishing and tapping into the state's reserve funds is not a choice. There is a \$1.4 billion hole in the state budget to fill. We will get the repair work done but it will take time.

Recently I was visiting with a group of high school students who asked me: "What is the hardest part of your job?"

After thinking for a while, I responded that it is saying no on funding some items that we would like to say yes to.

State government does a lot of good things. We have worked hard to try to continue funding many of those things. The reality is that there are a lot of things I would like to do, that each member of the legislature would like to do, but that we simply cannot afford.

There is only one way to get our fiscal accounts in order: put another hole in the belt, pull it even tighter this year as we smooth out the remaining rough budget edges.

With the projected revenue growth next year of 3.65 percent – almost all of the new funds are consumed with no action.

The projected revenue increase sounds like a lot until you realize that TennCare, the Basic Education Program and employee health care absorb most of the increase.

We have these obligations and they will be met. But before charting where we want to go, we have to find the starting point.

Our proposed budget is based on a "realistically conservative" revenue growth number of 3.65 percent or a projected \$473 million.

The average reduction we are proposing throughout state government is 2.5 percent. Most executive branch agencies funded with general funds will be reduced.

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We have worked hard to have our reductions be focused in administrative areas rather than direct services.

For example, TDOT has cut \$5 million in overhead which will allow us to fund more projects to keep Tennessee's roads and bridges up to date.

Financial Institutions has reduced its overhead as well which will mean our banks and other financial institutions will be charged less money, thus freeing up more capital to stay in the Tennessee marketplace.

Department of Health spending will drop 1.7 percent with minimal impact on public health as the cuts are focused on administrative expenses.

While supporting health care access, TennCare expenditures will go down 2.1 percent. But we will add funds for CoverKids and approval of the Hospital Coverage Assessment will allow us to avoid deeper reductions in basic TennCare services.

Higher education is being reduced 2 percent, but there will no drop in financial aid for low-income students. I want to tip my hat to the Tennessee Higher Education Commission, the University of Tennessee and the Tennessee Board of Regents in stepping up early to budget pressures.

In Tennessee, we face the challenge of increasing the percentage of our adult population with a college degree (21 percent of our adult population has a degree compared with 30 percent of the national population) while asking our institutions of higher learning to do that with less money. However, it's a challenge that must be met, and I am confident that our institutions of higher learning are up to the task.

We are raising retention and graduation standards – more accountability across the board.

One solution is to build partnerships – a different mindset than in the past. And we will do that by taking advantage of our unique assets.

To launch a new era of partnership, I am proposing a \$10 million operating grant for the Memphis Research Consortium to encourage collaboration in research and strategy in the health field. The partners are the University of Memphis, the University of Tennessee Health Science Center, St. Jude and other private health care entities.

The state's great research institutions and universities such as Oak Ridge National Laboratories, Vanderbilt and our public universities should work together with the private sector to find ways to effectively translate the investment in ongoing research into businesses that create high quality jobs.

In state government as in the private sector, the largest cost is for the people who provide the goods and the services. And like the private sector, state government is faced with having to adjust its workforce to reflect economic realities.

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There will be 1,180 fewer state positions – almost 90 percent of the reductions come from eliminating unfilled positions and the projects tied to non-recurring state and federal stimulus funds.

The tough economic times spawned by the national recession meant state employees have gone for several years without salary adjustments.

Once again, state government – the same as in business – held the line on increased wages.

But if we are going to have a great higher education system and hard-working state employees, we cannot continue to ask them to go without raises.

Our budget proposes a 1.6 percent salary increase – the first increase in four years. While this is less than I would like to do, and doesn't begin to make up for three years without a raise, it is a first step.

We also are recommending a continued \$50 monthly state match to 401(k) plans. Statutory step raises for assistant district attorneys, public defenders and members of the Tennessee Highway Patrol will be funded.

On a personal note, I want to thank the employees of Tennessee state government. I know that often people outside of government think that state workers don't work hard or don't care about providing great service. My experience has been that our state government is full of people who care deeply about the state and truly want to do a great job. To all of those employees, please know that you have my appreciation and gratitude for your hard work.

In Children Services, there will be no reductions in child welfare services but we are planning to transfer services from state group homes to private providers.

There will be no service reductions in Human Services and minimal shifts in Mental Health.

In the area of law enforcement we are supporting steps to address a growing problem here and across the country.

The manufacturing and use of meth has increased 45 percent from 2009 to 2010. Millions of taxpayer dollars are spent every year to house those who make and sell meth, to care for children removed from homes where meth is being made and for environmental cleanup. The cleanup cost is covered by state and local law enforcement agencies. It is time to get tough on this crime by making it more difficult to make meth in our state and making it easier to track down and prosecute the offenders.

In Corrections, we are restoring funds to keep the Whiteville Prison in Hardeman County open. Additionally we will continue to provide \$35 per day per prisoner to local

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governments for housing state prisoners so that we will not pass off any of our costs to local government.

At the Department of Economic and Community Development, I want to recognize the progress being made on the top-to-bottom assessment of how to refocus the department's assets to spread job creation from one corner of the state to the other.

Let me add, I hope that the changes we have proposed in tort reform will make our state even more competitive with our surrounding states in attracting and landing more high quality jobs.

Living here we know and enjoy the many natural resources that make Tennessee a great place to live, work and play. The Department of Tourism will continue putting out the welcome sign for tourists to See Tennessee and promoting an important part of our state's economy.

Three hundred million dollars will be used for the medical inflation for TennCare and CoverKids; to fund the Basic Education Program; for state health insurance premiums and for the state employee pay raises.

Capital outlay projects include \$182 million in Economic and Community Development projects and construction of a new public intermodal port facility in Lake County.

The Tennessee Department of Transportation may receive a \$13 million federal grant for a port facility at Cates Landing. With a \$7 million state appropriation, the Northwest Tennessee Regional Port Authority will provide a port facility that is within one day's truck haul of 76 percent of the nation's major markets.

At a time that the citizens in Lake and other surrounding counties in upper West Tennessee are dealing with the closure of the Goodyear Tire plant, I am pleased to announce this project as a stimulus for new jobs and new business investment.

We also are funding required but somewhat delayed maintenance at our schools and other state facilities.

As we built the budget, we tried to chip away at some of the projects that we moved into a non-recurring status and paid for with money drawn from the state's reserves – the Rainy Day fund.

From 2008 when the fund was at \$750 million to June 30, 2011 when the balance should decrease to \$257 million, we have to change course.

Our budget restores \$69 million to the Rainy Day fund – rebuilding our cash reserves – to \$326 million at June 30, 2012.

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If at the end of the year we find our revenue projections too conservative – instead of funding new projects and programs, first evaluate the remaining non-recurring items. Determine if they should be retained or eliminated. And before we scratch the itch to spend those new dollars, decide whether a better use of the excess funds is an even greater down payment in the Rainy Day fund.

Higher reserve fund levels served us well during the economic downturn.

In preparing for the future, it is now our job to rebuild the Rainy Day Fund to prudent levels. Because there are so many places that we would like to spend money, this will be difficult, but it's the right thing to do for the long run.

Where do we want to be?

Being realistic does not squelch the desire to aspire – to be even more.

One of the areas where all of us want to aspire to be more is education. As we all know, there has been a lot of discussion about education, and particularly the role of teachers, already in this legislative session.

I want to be very clear: my goal is to treat teaching like the important and honorable position that it is. My goal is to make Tennessee a place where great educators want to teach and feel rewarded and appreciated for their efforts.

Because, at the end of the day, there is nothing that makes as much difference to a child's educational experience as the teacher standing in front of the classroom. It is more important than background, zip code, race, gender or any other determinant. Every discussion we have about education should always begin and end with the thought of what is best for the child in the classroom.

In education, we are blessed with the tools to be game changers for all students.

Better teachers; improved school leadership with great principals; standards of academic excellence; parental involvement and students who are challenged to learn.

That can and will happen in Tennessee.

Our opportunity is to put the muscle behind education reform.

There is one underlying principle – learning begins with great teachers who are encouraged to teach and to spend more time in the classroom instead of filling out reams of paperwork. Tonight I am calling on the Commissioner of Education, his staff and the state Board of Education to reduce teacher paperwork – let's keep our teachers in the classroom with students and stop carving out instruction time with bureaucratic red tape.

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Our legislative approach to education is to insure the best teachers are in the classroom. Tenure reform is not a punitive action. It is a recognition and reward of achievement by the best.

Our state led the way in using testing data to assess student learning. But as Bill Sanders, the originator of the value-added assessment system, has said – you really do not have the snapshot on changes in student improvement until after three years. Our legislative approach asks for a five-year period before tenure is granted and periodic reviews to retain the best teachers in the classrooms.

Let me share the story of a great teacher.

Elaine Harper teaches science at Red Bank High School in Chattanooga.

She recently spent encouraged her students to create geysers out of soft drinks and evaluate which combination went the highest. By the way – Dr. Pepper won at 14.5 feet.

Her Advanced Chemistry class was clearly engaged and enjoying the project, but that was not the point. Her students were learning about research methods – how to develop a hypothesis, isolate variables, conduct research, analyze results and arrive at conclusions.

Dedicated to excellence, Elaine Harper feels that sharing ideas with other teachers improves her classroom.

Harper: “Every month we participate in one peer observation where one teacher sits in on the class of another. I have picked up ideas from teachers I have observed and I have picked up ideas from teachers who have observed my class.”

Peer observations were developed as part of Red Bank’s improvement plans through Schools for a New Society, a joint program between the Public Education Foundation and Hamilton County schools.

One of her students said: “She is the only teacher I have ever met who was willing to sacrifice her own time to film lecture videos over our snow week so that our class would not get too far behind. She cares about her students and wants to see them succeed.”

Elaine Harper, please stand, and let us recognize a great teacher who is making a difference in her students’ lives.

Charter schools also open new opportunities for learning and we have asked for the 90-cap limits to be removed and for more students to have the option of a charter school as a learning environment.

There are a number of innovative approaches to classroom instruction underway and we can learn from the experiences of others.

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“The value of quality education should never be under estimated. For the investment in our children today provides tremendous benefits for us tomorrow.”

Those sentences from the Influence 1 organization and the support of the City University in Memphis embrace a vision for academic success.

The City University School of Liberal Arts is a charter school with a college preparatory foundation. Students have full access to diverse advanced placement courses and dual enrollment at Christian Brothers University.

In Nashville the LEAD Academy is the city’s first charter high school with a vision to do *Whatever It Takes* to ensure students graduate from high school and attend college.

The Metropolitan Nashville school system is 1 of 9 in the country recognized by the Gates Foundation for a collaborative approach to blend charter schools in with other district schools.

I mentioned earlier that state support for higher education is on a downward slope at a time that we are asking for better student retention and improved graduation rates. Over time we need a new model to support higher education and we should take a hard look at creating partnerships in higher education.

For now, we are asking for flexibility in applying HOPE scholarship funds from the lottery.

Allowing the scholarship to be used during the summer term will be an important step in timely graduation from technical centers, community colleges and four-year institutions.

Our goal in education, from pre-kindergarten through post-secondary, is to grow the number of college graduates, provide a better educated workforce for employers looking to relocate or expand in Tennessee, and let free market forces do the rest.

Finally, how do we get there?

The future hinges on decisions we begin making tonight in this Chamber and in the thousands of home of Tennesseans who are seeing this address.

A governor makes a difference by listening, learning and leading.

The General Assembly makes a difference by casting votes for a new and better tomorrow and not being satisfied with propping up the past or becoming sidetracked.

It is easy to spend when times are good but the real test is whether we are willing – together – to make the hard decisions when things are more difficult.

The people of Tennessee expect us to make the tough, difficult choices.

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The old model of government was that government typically looked the same regardless of circumstances. During good times we spent a little more than we did during hard times, but year in year out, we pretty much kept doing things the same way.

As the state's revenues start to slowly rebound, instead of the traditional approach of government thinking which is to spend more, let's focus on how to provide great customer service for what the state should be doing.

One area – drivers' licenses. Everyone has a driver's license story.

I have asked Safety and Homeland Security Commissioner Bill Gibbons to speed up the process and guarantee a time for a customer to receive a license.

The steps for a more efficient and more effective state government are simple:

- Question the assumptions.
- Challenge the status quo.
- Make a difference.

So tonight, let's begin a conversation about the future, a challenge to think boldly, willing to ask why, gathering good research, and taking steps together – as a team – setting aside political misgivings and mistrust – being an example for how things that make a difference are uncovered and done.

We raced to the Top in education; let's build on the momentum and not look back.

In some ways the process is underway.

Our 45-day freeze on new rules and regulations called timeout. The measure for rules and regulations should be is it necessary, which is affected, is it good for jobs.

The timeout should be extended to Boards and Commissions.

We have asked to reduce from 4 to 3 the members of the Tennessee Regulatory Authority while maintaining diversity.

This is a small first step – a beginning, but we can do much more.

Tonight, I am asking the General Assembly to join me in reviewing every board and commission. Determine whether 140 boards and commissions are necessary. Find out how much state government authority through rules and regulations has been shifted to these agencies.

Sen. Bo Watson is chair of the Senate Government Operations Committee. For 18 months he and his colleagues have been looking at this issue and they have made progress.

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We can and should do more. Let's work together and tackle this issue head-on in 2012. It is time for more accountability.

As we look ahead, we want to budget for outcomes and not for funding a program. By that approach, the people of Tennessee will be able to see first hand the impact that their tax dollars are having on the lives of every citizen.

We will review how the state buys goods and services; how we approach information technology and other functions that stretch across state government.

The General Services review should include an across-the board paperwork reduction plan. While we will save trees and reduce service contracts for copiers, we also will encourage better use of state employees' time.

While we are in better shape than most states in funding our pension plan and health care premiums, we should take steps in the years ahead to make sure our plans remain fiscally sound. We will continue to meet our commitments to our state employees while maintaining financial solvency.

In state government we should be willing to ask questions and gather information from a many sources – including those who may disagree with us. The result will be better decisions.

Our approach to government is not to have excessive laws, rules and regulations that take out the air that allows new ideas to sprout and grow.

Government will not be the creator of new jobs. They will be nurtured by a spirit of entrepreneurship and a culture that embraces smart growth and provides intellectual stimuli – through an educated and trained workforce.

But we have to be willing to do our part. Responsibility starts with each of us with government offering a helping and compassionate hand to those who are in need.

I want to share one more story this evening – one that shows a commitment to be more and then encouraging others to do the same.

My wife, Crissy, as she was on the campaign trail last year, visited a program in Nashville – In Full Motion.

Cynthia Fitzgerald grew up in a home where college was not expected. Her mother cleaned homes but hoped for more for her children. In high school Cynthia's life changed and she learned there were scholarships for college students.

She was accepted to MTSU but then there was a question of how to get there. There was no family car; transportation was by bus. She got her luggage and started walking the

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route to the Greyhound Bus station. The driver picked her up, took her to MTSU where she earned her degree. She earned a law degree from Vanderbilt as well.

Today, she shares her message with inner city youth – that college is for everyone. She and her husband, Maurice, offer ACT prep courses on Saturday mornings. The results – 100 percent graduation rate for students who complete the program.

I want to introduce – Cynthia Fitzgerald – someone who is making a difference in the lives of others and “Building Champions for Life.”

These are game changers and there are many others across the state. They point toward a brighter future on the horizon where the dreams and aspirations of young people will be seen, encouraged and fulfilled.

The road to the top – whether it is racing to get there by providing a quality education for every student or creating new, innovative opportunities to be first in the Southeast for new job creation – will not easily traveled.

Make no mistake, there will be others competing with us, hoping to get there first. But Tennesseans have never been afraid to compete.

It will take each of us – in our own way – pulling our weight, giving of ourselves, and working together – not against ourselves.

That is Elaine Harper who goes into the classroom every day prepared to inspire young people to excel.

That is the vision of Cynthia Fitzgerald who would not let her dreams of college be extinguished and now gives back so others who may feel challenged have an opportunity to succeed.

That is Lieutenant William Anderson, an instructor at our Corrections Academy in Tullahoma who was awarded a Bronze Star for his recent service with the 278th in Iraq.

Lieutenant Anderson led his platoon from the front, traveling in excess of 12,000 miles from Tikrit to Balad to Mosul and to Kirkuk – an area of operation where insurgents were aggressively engaged coalition forces.

That is Trevor Bayne, from Knoxville, who at age 20, and in his second NASCAR race, won the Daytona 500 in a major upset. He stood on the victory stand and spoke with humility and genuineness.

These Tennesseans and thousands of others all faced great odds and incredible challenges but are up to the task at hand.

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We in state government should do no less.

The people of Tennessee have given us the enormous privilege of leading this state – with privilege comes responsibility.

I ran and was elected as a Republican. The majority in this Chamber did the same. As Republicans, we understand and support the principals of less government, lower taxes, and free enterprise.

But none of us in this Chamber tonight want Nashville to be like Washington where partisanship prevents us from solving problems.

When there are opportunities to work together to advance our state, we should do so.

This isn't necessarily the easiest time to govern, but I know that all of us in this room ran for office so we could make a difference.

The people of Tennessee want us to fix the budget shortfall and not raise their taxes.

They want us to have a school system where the first thing that gets asked is always – what is best for the child in preparing him or her for the future.

They want us to make Tennessee the kind of place where employers want to locate and where existing businesses have the freedom and opportunity to grow.

I want to thank the people of Tennessee for giving me this job. After 58 days in office, I can tell you that I wouldn't trade jobs with anyone anywhere.

Join with me tonight as we take the next steps along our path to the top.

If we strive to be more, we will achieve much more.

Thank you.